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## **Pakistan**

## **Cotton and Products**

## **Annual**

## **2003**

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### **Report Highlights:**

The MY 2003/04 crop is forecast to be the second largest ever at 1.94 Million Metric Ton (MMT) as farmers covet the higher return earned on the MY 2002/03 crop and seek to avert repeat of problems encountered last year with sugarcane. Progressive textile mills are focusing on producing better-quality products, particularly for the export market, in the process making Pakistan a leading market for U.S. Pima. Consumption continues to expand in response to export demand and to stiffening domestic requirements. With domestic prices increasing, above the world rate for comparable grade local lint, mills are finding importing upland cotton increasingly attractive.

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Includes PSD changes: Yes

Includes Trade Matrix: No

Annual Report

Islamabad [PK1], PK

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## Production

Pakistan's MY 2003/2004 crop is off to a good start, due in part, to near normal snow fall that resulted in timely supply of water for irrigation. Cotton acreage is expected to exceed last year's reduced level. Cotton yields are forecast to be higher as a significant portion of the crop should be planted on time due to availability of water. The monsoon season, which usually arrives in early July, should provide sufficient moisture to get the crop started. Resowing, a problem last year especially in Sindh province, should not be so this year. MY 2003/04 production is forecast at 1.94 MMT, assuming optimum conditions remain in place the remainder of the season.

**Table 1: Cotton Production, Supply and Demand**

PSD Table						
Country	Pakistan					
Commodity	Cotton				(HECTARES)(MT)	
	2001	Revised	2002	Estimate	2003	Forecast
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]
Market Year Begin		08/2001		08/2002		08/2003
Area Planted	0	0	0	0	0	0
Area Harvested	3130000	3116000	2700000	2796000	0	3070000
Beginning Stocks	576104	576104	710006	710006	508609	524109
Production	1807130	1807130	1676494	1691994	0	1937766
Imports	217727	217727	185068	185068	0	152409
TOTAL SUPPLY	2600961	2600961	2571568	2587068	508609	2614284
Exports	34836	34836	54432	54432	0	21773
USE Dom. Consumption	1850676	1850676	2003084	2003084	0	2068402
Loss Dom. Consumption	5443	5443	5443	5443	0	5443
TOTAL Dom. Consumption	1856119	1856119	2008527	2008527	0	2073845
Ending Stocks	710006	710006	508609	524109	0	518666
TOTAL DISTRIBUTION	2600961	2600961	2571568	2587068	0	2614284

Pakistan's Ministry of Food, Agriculture and Livestock (MinFAL) increased MY 2002/2003 cotton harvest and production estimates recently. The increase in area harvested did not correlate into same gains in production as average bale weight of ginned cotton was lower. Ginners report the year's average bale weight at 365 lbs., compared to the standard bale weight of 375 lbs. This is MINFAL's semi-final estimate. Generally it is considered the official number. MinFAL's based its estimate on gin arrivals of 1.60 MMT (which includes an estimate for unreported sales) plus an estimated 90,000 MT for non-mill consumption. Unreported seed cotton sales are estimated to be minimal-- similar to last year. Prior to MY 2000/01, a 15-percent sales tax on seed cotton provided a significant incentive for ginners to

under-report purchases. However, since then, the sales tax on seed cotton has been eliminated and the sales tax refund system for lint has been tightened. The textile industry is required to document transactions at each stage of processing, making it difficult to under-report seed cotton sales.

In an effort to resolve the controversy over bale weight, the Pakistan Cotton Ginners' Association (PCGA) now reports total cotton arrivals in bales and in metric tons.

## **Production Policy**

Cotton is the backbone of Pakistan's economy. Several years ago, the government began limited intervention in the cotton market to support the seed cotton price at Rs. 725 per maund (1 maund = 37.324 kilograms, Rs 58 = \$1). Despite what turned out to be a short crop in MY 2002/03, initial uncertainty over the size of the crop proved sufficient to dampen price speculation early in the marketing year. Farmers suffered a lower return in the beginning of the season but still were better off than in MY 2001/02. With prices rising by mid-season for lint cotton arrivals in market the need for government intervention was eliminated.

To enhance farmer return, the government enacted a number of reforms. As farmers generally sell seed cotton (as opposed to lint), the government implemented a new grading system for seed cotton that corresponded more closely to lint grades and prices. The system pays a premium for contamination-free cotton. To counter the perception that spinners reap a windfall at the expense of producers (which was somewhat diminished by the better returns realized by farmers this year), the government announced that; (a) it would intervene if lint price fell below Rupees 1,800 per 40 kg of lint for base grade 3 with staple length of 1-1/32" and micronaire value between 3.8 - 4.9 NCL (about 35 cents per lb at the current exchange rate), and (b) it would continue the policy of unrestricted cotton exports for the entire season. In the past, the government restricted exports at the beginning of the season until the size of the crop could be determined.

## **Consumption**

Pakistan's cotton consumption increased sharply, for a third year in a row, in response to export-driven demand. Thru the first 9 months of MY 2002/03, yarn and textile exports are running 8 percent (quantity basis) and 21 percent (value basis) above the corresponding year earlier period despite a 7 percent appreciation in the Pakistani rupee's value since the start of the year. The spinning and weaving industries continue to heavily invest into new equipment as well as to renovate existing equipment due to improved profitability over the last four years. Good domestic harvests, with the exception of last year, and stronger export demand are the basis for the market surge. Looking toward 2005 the textile industry is aggressively pursuing quality improvement and production diversification to include more value-added products, rather than to rely mainly on lower-value yarn exports in the globalized market.

Although synthetic fiber consumption continues to increase slowly, the longer-term trend is for synthetics to comprise an increasing share of domestic consumption. Consumers increasingly prefer less expensive blended products as their purchasing power shrinks.

**Table 2: Cotton and Synthetic Fiber Consumption**

Year 1/	Cotton (MT)	Synthetics (MT)
1998/99	1,441,923	407,686
1999/00	1,566,348	404,008
2000/01	1,673,280	405,038
2001/02	1,755,669	409,557
2002/03 2/	970,561	223,085

1/ July/June Marketing Year

2/ July-December data only

Source: Ministry of Industries and Ministry of Finance, Government of Pakistan

**Table 3: Yarn and Fabric Production**

Year	Cotton Yarn (MT)	Blended Yarn (MT)	Cotton Cloth 1/ ('000 M <sup>2</sup> )
1998/99	1,153,031	394,601	384,561
1999/00	1,276,095	402,441	437,190
2000/01	1,335,629	393,501	490,164
2001/02	1,384,903	433,442	576,842
2002/03 1/	732,353	227,963	269,492

1/ Both mill and non-mill sector production

2/ July-December data only

Source: Ministry of Industries and Ministry of Finance, Government of Pakistan

All Pakistan Textile Mills Association

## Trade

In MY 2002/03 Pakistan is projected to be a net importer of cotton as a result of strong domestic demand for better grades of cotton. During the first ten months of MY 2002/03, Pakistan imported about 140,000 MT of cotton and exported 45,000 MT. Additional imports are likely during the remainder of MY 2002/03 to meet production requirements. Firms often import upland cotton for their export programs due to contamination problems in local cotton, particularly with alien fibers (polypropylene, jute). The problem occurs during harvest and handling and wreaks havoc in the industry by creating yarn with differential yarn strength and differential dye uptake. Estimates are that contamination increases a mills' cost by 10 percent or more. Some mills have standardized their blend for export markets, with a predefined origin and percentage of imported cotton in the product. Pakistan imported a record

volume of U.S. Pima/ELS cotton, as progressive firms focus on producing higher-count yarns and better-quality fabrics for export market and for specialized products demanded in the domestic market.

Pakistan is expected to maintain growth in imports of US Pima/ELS and a variety of other medium to long staple cotton in MY 2003/04. However, the demand for imported strict middling grade cotton may decline due to the forecast of large domestic harvest of MY 2003/04 crop.

The government will continue its current trade policy for cotton. No export quotas nor restricts on exports during certain times of the marketing year will be set. As a result, Pakistan is expected to export 22,000 MT of cotton during MY 2003/04. The spinning industry argues that the government's export trade policy increases the domestic price of cotton, which decreases the competitiveness of Pakistan's textile exports.

## **Stocks**

MY 2003/04 carry-in stocks will be substantially less than the last year because of more than 8 percent growth in consumption in MY 2002/03, and a smaller crop harvested last year. Some mills will not be covered through November and December, when the bulk of domestic crop will come onto the market.